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13th Assembly

Standing Committee on Government Operations

REPORT ON THE REVIEW OF THE REPORT OF THE AUDITOR GENERAL TO THE NWT LEGISLATIVE ASSEMBLY FOR THE YEAR ENDED MARCH 31, 1995

Roy Erasmus, M.L.A.,
Chair

Northwest Territories Legislative Assembly

105-00524/

Standing Committee on Government Operations

October 4, 1996

THE HONOURABLE SAM GARGAN, MLA
SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker,

Your Standing Committee on Government Operations has the honour of presenting its Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for the year ended March 31, 1995, and commends it to the House.

Roy Erasmus, MLA
Chair

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STANDING COMMITTEE ON GOVERNMENT OPERATIONS

REPORT ON THE REVIEW OF THE REPORT OF THE AUDITOR GENERAL TO THE NWT LEGISLATIVE ASSEMBLY FOR THE YEAR ENDED MARCH 31, 1995

For the first time since the Legislative Assembly's Standing Committee structure was changed, the Standing Committee on Government Operations has reviewed the annual Report of the Auditor General. This task was formerly the duty of the Standing Committee on Public Accounts. The new Committee structure allows members of the Government Operations Committee to consider the Auditor General's comments in conjunction with other relevant issues which have been considered by the Committee before, rather than in isolation.

The Standing Committee met to review the Report on August 26 and 27, 1996. The first day of meetings was devoted to briefings by the Auditor General's staff and Committee staff on the nature of the Public Accounts, the auditing process, the review process for the Auditor General's Report, and issues raised in that report. The second day, August 27, was a public meeting at which Committee Members took the opportunity to discuss the relevant issues with the Comptroller-General, Mr. Lew Voytilla, and the Deputy Minister of Health and Social Services, Mr. David Ramsden.

A number of important issues arising from the Report, as well as issues raised in last year's Report, were addressed by Committee Members.

Concerns regarding expenditures and budgeting

One concern in the Auditor General's Report was that many government programs had 'base deficiencies' in their budgets, and needed regular supplementary appropriations. For these programs, not enough money was budgeted to cover their costs.

In his appearance before the Committee, Mr. Voytilla first explained that the changes introduced with the business plans and budgets this year should address these concerns. Departments have been instructed to draft their budgets assuming that they will not be able to get supplementary appropriations (except for emergencies).

The Report also mentioned that supplementary reserves were often not large enough to cover the unpredictable events (such as bad forest fire seasons) that had arisen.

Many of the specific problems in this area related to the then-separate Departments of Health and Social Services. Mr. Ramsden responded to Members' questions on base deficiencies and budgeting problems in the Department of Health and Social Services. Overexpenditures in these areas are generally related to the difficulty in projecting how much use our growing population makes of our health care system. Mr. Ramsden expressed optimism that the new business plan/budget process would address many of those problems.

Future Liabilities — Pay Equity and Environmental Restoration

The Report expressed concern that two large possible future liabilities — the pay equity complaint by the UNW, and costs of environmental restoration of polluted sites — are not reflected on the Government's books. If and when these costs ever have to be paid, they could seriously affect the Government's financial position. Members worry that these issues could adversely affect planning for division, as both the assets **and** the liabilities of the Government must be divided between the two new territories in 1999.

Pay Equity

For a number of years now, there has been an outstanding complaint by the Union of Northern Workers (UNW) regarding pay equity in the Government. The UNW is seeking significant compensation for alleged inequity in pay between jobs primarily held by women and jobs primarily held by men. If the UNW is successful in its complaint, the Government could be faced with significant retroactive compensation payments and possibly expensive changes to its pay scales.

The Government had filed in Federal Court seeking a judgment on the jurisdiction of the Canadian Human Rights Commission in the case. The Court recently ruled that while the Commission did have jurisdiction, they had to reassess their latest findings due to a technicality. The Government is appealing that decision.

In the meantime, as is noted in the 1993/94 Report, the Government has not recorded any amount for a liability on its books. Should an award of any amount ever be made in the UNW's favour, that amount will increase the Government's deficit. Committee Members are very concerned that an amount for this potential liability has not been entered into the Public Accounts.

The Comptroller-General explained that the Government is confident that they will win their appeal of a recent court decision on the pay equity complaint, and that they therefore do not need to enter a liability on the books. Committee Members, however, expressed strong concerns on these issues, but were unable to get the Comptroller-General to indicate an amount of potential liability for the pay equity complaint.

Costs of Environmental Restoration

Generally accepted accounting practices now require the Government to recognize possible costs of restoring environmentally-damaged sites. But according to the Report, the Government has done insufficient work to be able to make provision in its books for those costs. The Government's response is that they are waiting for a CICA (Canadian Institute of Chartered Accountants) task force to complete guidelines and standards in this area. They are also waiting for further study on the exact amount of environmental restoration work that will be needed in the NWT.

Mr. Voytilla noted that some preliminary work on identifying sites and costs had been done, but that much more work lay ahead. This work involves not only identifying sites, but also identifying liability and jurisdiction. (Some sites may be the responsibility of the Federal government for cleanup, or perhaps even of the US Armed Forces for some wartime and DEW line sites.) The Auditor General's staff also reminded Members that the accounting issue was only a part of the problem, and that health and public safety issues were critical in considering the whole problem of environmental cleanup.

Committee Members agreed that the issue of potential liabilities was a serious one, and worthy of more decisive action from the Government.

RECOMMENDATION #1

THE STANDING COMMITTEE RECOMMENDS THAT THE GOVERNMENT DETERMINE AMOUNTS TO BE ENTERED INTO THE PUBLIC ACCOUNTS REFLECTING THE POTENTIAL LIABILITIES SURROUNDING THE PAY EQUITY COMPLAINT AND ENVIRONMENTAL RESTORATION COSTS, AND THAT THEY DO SO BEFORE MARCH 31, 1997.

RECOMMENDATION #2

THE STANDING COMMITTEE RECOMMENDS THAT THE GOVERNMENT APPLY TO THE GOVERNMENT OF CANADA TO USE REMAINING FUNDS IN THE ARCTIC ENVIRONMENTAL STRATEGY TO COMPLETE AN INITIAL INVENTORY OF SITES REQUIRING ENVIRONMENTAL RESTORATION, INCLUDING POSSIBLE CLEAN-UP COSTS.

Inadequate Reporting by Crown Corporations and others

This year's Report noted that many public entities — Arctic College, NWT Power Corp., NWT Housing Corp., NWT Development Corp., NWT Business Credit Corp., the WCB, and the NWT Liquor Commission — were not filing corporate plans and annual reports that met the requirements of the *Financial Administration Act* (FAA). Annual reports for 1994/95 were all submitted later than the time prescribed, and corporate plans did not include the information required.

Members were informed by Auditor General's staff that the Federal FAA requires 'special examinations' of federal Crown corporations and similar entities every five years. The Committee agreed that a similar position would be useful in the NWT FAA. The Members' concerns were centred upon the need to better monitor and evaluate the performance of Crown corporations and other agencies, especially since many of our Crown corporations carry out policy initiatives that would usually be done by departments in other jurisdictions.

RECOMMENDATION #3

THE STANDING COMMITTEE RECOMMENDS THAT THE *FINANCIAL ADMINISTRATION ACT* BE AMENDED TO PROVIDE FOR REGULAR

EXAMINATIONS OF CROWN CORPORATIONS AND OTHER ENTITIES OF THE GOVERNMENT, SIMILAR TO THE PROVISIONS IN PART X OF THE *FINANCIAL ADMINISTRATION ACT (CANADA)*.

RECOMMENDATION #4

THE STANDING COMMITTEE RECOMMENDS THAT THE GOVERNMENT AMEND RELEVANT LEGISLATION, REGULATIONS, AND/OR POLICIES TO PROVIDE THAT CROWN CORPORATIONS AND OTHER ENTITIES OF THE GOVERNMENT WHICH DO NOT MEET THE REQUIREMENTS OF THE *FINANCIAL ADMINISTRATION ACT* REGARDING CORPORATE PLANS AND ANNUAL REPORTS HAVE THEIR BUDGETS WITHHELD UNTIL SUCH TIME AS THESE REQUIREMENTS OF THE ACT ARE MET.

Other Issues

One chapter of the Report consisted of a follow-up to the Auditor General's 1992 Comprehensive Audit of the Department of Health. The Auditor General was concerned that the Department was too slow in carrying out the recommendations of the Comprehensive Audit. For example, the Comprehensive Audit stressed the need for a strategic plan governing health care delivery in the NWT. Mr. Ramsden suggested that a draft of the plan might be complete in the next eight, twelve, or perhaps eighteen months. Committee Members also discussed concerns about relationships with the Health Boards, information systems, and the flow of information between the Department and the boards.

Outside the Report, Members discussed the issue of municipal loans briefly with the Auditor General's staff. Members expressed concern about municipal accountability with regard to Community Empowerment, following up on an issue in last year's report relating to loans to municipalities. Problems with municipalities' budgets have led to concerns by Committee Members that the significant transfers of funds

and responsibilities included in the Community Empowerment initiative could lead to further problems. Mr. Voytilla agreed to provide further information to the Committee regarding plans to ensure adequate accountability by communities, and the Committee intends to pay close attention to the financial health of municipalities and the accountability framework of the Community Empowerment initiative.

RECOMMENDATION #5

THE STANDING COMMITTEE RECOMMENDS THAT THE LEGISLATIVE ASSEMBLY REQUEST THE AUDITOR GENERAL OF CANADA TO CONDUCT AN INDEPENDENT REVIEW OF HOW THE DEPARTMENT OF MUNICIPAL AND COMMUNITY AFFAIRS ASSESSES AND DETERMINES THE FINANCIAL HEALTH OF COMMUNITIES THROUGH MUNICIPAL REPORTING PROCESSES;

AND FURTHER, REQUESTS THAT THE REVIEW BE REPORTED INDEPENDENTLY TO THE SPEAKER OF THE LEGISLATIVE ASSEMBLY AS SOON AS POSSIBLE, PREFERABLY WITHIN THE NEXT SIX MONTHS.

A concern from last year's report related to the Government's information systems. Members were concerned that many of our systems were out of date, and did not adequately help the bureaucracy. Committee Members agreed with Mr. Voytilla that the Government's information systems should allow managers to measure results, not just processes. Mr. Voytilla noted that many of our systems were geared to process reporting rather than results reporting, and that the Government's Informatics Strategy was designed in part to change that.

Members also discussed the work needed to identify Government assets and liabilities prior to division. This in turn is related to a concern from last year's report on the valuation of fixed assets. Traditionally, assets such as buildings and land are represented on the Government's books as having a nominal value (typically $1000

or $1). The Auditor General recommended last year that this practice be brought up to date — in accordance with recommendations made in 1986 by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants — by valuing the assets at their true worth. Members agreed that the Government should move more quickly on this issue, and that the assistance of the OAG be sought while identifying assets and liabilities prior to division.

RECOMMENDATION #6

THE STANDING COMMITTEE RECOMMENDS THAT THE GOVERNMENT IMMEDIATELY BEGIN VALUING FIXED ASSETS IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE PUBLIC SECTOR ACCOUNTING AND AUDITING BOARD OF THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, AS RECOMMENDED BY THE AUDITOR GENERAL IN HIS REPORT FOR THE YEAR ENDED 31 MARCH 1994.

Finally, the Auditor General's staff suggested to the Committee that language in the *NWT Act* relating to auditing requirements was outdated, and that the language in the *Nunavut Act* was more comprehensive and up to date. Committee Members agreed that this situation should be remedied when feasible.

RECOMMENDATION #7

THE STANDING COMMITTEE RECOMMENDS THAT SUGGESTED AMENDMENTS TO SECTIONS 27 TO 31 OF THE *NORTHWEST TERRITORIES ACT* DESIGNED TO MORE CLOSELY MATCH THE LANGUAGE IN SECTIONS 42 TO 48 OF THE *NUNAVUT ACT*, BE FORWARDED TO THE FEDERAL GOVERNMENT FOR THEIR CONSIDERATION IN CONJUNCTION WITH ANY SUGGESTED AMENDMENTS MADE TO ENABLE CONSTITUTIONAL DEVELOPMENT OF THE NEW WESTERN TERRITORY, OR IN ANY CASE BEFORE APRIL 1, 1999.